Metropolitan King County Council
Budget and Fiscal Management Committee

Staff Report

Agenda item No.:	4	Date:	June 5, 2012
Proposed No.:	2012-0202	Prepared by:	Wendy Soo Hoo Mark Melroy John Resha

SUBJECT

Proposed Ordinance 2012-0202 would authorize the King County Executive to execute agreements related to a sports and entertainment arena in the SoDo neighborhood in Seattle. The agreements include a memorandum of understanding (MOU) with the City of Seattle and ArenaCo, and an interlocal agreement (ILA) with the City.

Today's briefing includes some follow up to last week's questions as well as presentations by Executive staff and Carl Hirsch of Stafford Sports. Mr. Hirsch is a consultant with expertise in the development of sports and entertainment arenas, who has been retained by the City.

BACKGROUND

The Seattle Supersonics (Sonics) played in Seattle from 1967 to 2008. In 2006, the team was purchased by an Oklahoma-based ownership group, which moved the team to Oklahoma City before the 2008-2009 National Basketball Association (NBA) season.

On February 16, 2012, the Seattle Mayor and King County Executive announced that they were working with Chris Hansen, a private investor, (ArenaCo) on a proposal to develop an arena south of Safeco Field and Century Link Field. The proposed arena would have the ability to host a NBA and National Hockey League (NHL) team. According to transmittal documents, the 700,000 square foot arena would accommodate approximately 19,000 attendees for concerts, 18,500 for NBA games, and 17,500 for NHL games.

Key Actual and Projected Dates for the Project

- **May 22nd:** Executive transmitted Proposed Ordinance 2012-0202

- **MOU** – agreement between the City and County and ArenaCo
- **Interlocal Agreement** – agreement between the City and County that identifies the debt split and establishes the governance structure and process

- **May 23rd:** Transportation study released

- **To Be Determined – 2012:** Legislative action on the proposed agreements

- **Mid-2012 through Mid-2014:** ArenaCo works to get the site ready for construction (permitting, SEPA, etc.) and the City, County and ArenaCo would negotiate the final Transaction Documents, including an Umbrella Agreement, that will further define the details of the transaction. ArenaCo would concurrently work to acquire the NBA team.

- **Mid-2014:** Following approval of the Transaction Documents and acquisition of the NBA team, the City would acquire the site (on the "Closing Date"), making the first installment of public financing. The City would then ground lease the site to ArenaCo to begin construction.

- **Mid-2016:** Once construction is complete and the arena is ready for occupancy ("Commencement Date"), the City and County would carry out a lease-purchase and lease the arena back to ArenaCo. This marks the second installment of public financing. Total public financing is capped at $200 million.
    - **No County bonds would be issued until the construction is complete.** *Council action would be required to authorize the sale of bonds.*
    - **Public financing is reduced to a maximum of $120 million if the NHL team is not secured**. The County's involvement would be limited to the amount that the County reasonably determines can be supported by its anticipated share of property taxes attributed to the arena, with a maximum of $5 million.

- **Mid-2046:** End of arena lease term, which would be no earlier than the term for any public financing. MOU includes five-year options to extend the arena lease.

This timeline is also shown below in Exhibit 1.

Exhibit 1

Key Actual & Projected Dates for SODO Arena Project

<u>ANALYSIS</u>

One question that has been asked is how this proposal compares to other stadium deals. Exhibit 2 below shows how other stadiums in this area have been financed.

As shown below, this proposal varies from the Safeco Field, Century Link Field, and the Key Arena renovation in several key ways. First, a lower percentage of the cost is proposed to be contributed by the public entities. In the ArenaCo proposal, 40 percent of the development cost would be funded by public debt, with about 40 percent of that amount being repaid through private rent from the arena operator over the term of the lease. In contrast, the public funded 72 percent of Safeco Field, 70 percent of Century Link Field, and nearly 100 percent of the Key Arena renovations. Second, unlike the Safeco and Century Link deals, no new, dedicated taxes are proposed. Tax revenues assumed to pay off the bonds would be generated solely through existing taxes and only through taxes actually generated at the arena. Third, in contrast to the agreement with the Sonics related to the Key Arena renovations, the team's lease would be required to be at least as long as the term of public financing.

Exhibit 2
Seattle/King County Stadium Financing

	Public Contribution	Private Contribution	Revenues Supporting Public Contribution	Security for the Public
ArenaCo Proposal	Capped at $200M; estimated that over 40% of this repaid through private rent from the arena operator. Public contribution does not begin until NBA team is committed – the City will purchase the land once the site is ready for construction and the NBA team is secured. County involvement does not begin until after the arena is completed. If there is no NHL team, the County's responsibility is limited to $5 million.	~$290M in up front costs. Also payment of rent to support debt service. Private contribution includes costs to prepare the site for construction and any construction overruns ArenaCo required to fund any needed capital improvements	Proposal relies on incremental increase in existing taxes generated at the arena and by teams (e.g., B&O tax revenue) Annual base rent paid by the teams Additional rent if the incremental taxes and base rent do not cover the required annual payment	Reserve account for rent payment Certification that Net Arena revenues are 2x the annual reimbursement amount Public ownership of the land and arena shell Paid first on ArenaCo revenues – rent paid before private lenders and parent company. Right to receive rent payments would be secured by a lien, with the lien position to be negotiated between the City, County and private lenders. Guarantee of Parent Company 30-year non-relocation agreement Construction cost overruns covered by owners No operational financial risk – ArenaCo operates facility Capital maintenance funded by ArenaCo through dedicated annual set-aside
Safeco Field	$336M in King County bonds	$126M	0.5% stadium sales tax on restaurants, bars and taverns in King County 2% stadium sales tax on rental cars in King County	Dedicated sales tax A portion of the tax revenue, including the sales tax on food and beverages and on rental cars, is not dependent on event attendance, diversifying the revenue risk.

			0.017% existing State sales tax generated in King County credited to repay ballpark construction bonds 5% Safeco Field admissions tax (up to 10% authorized) Sports theme lottery revenues Commemorative ballpark license plates	All cost overruns assumed by team (although this was a point of considerable debate) No specific non-relocation clause but lease requires 90% of regular-season home games and 100% of home playoff games to be played at Safeco Field.
Century Link Field	Capped at $300M Sales tax credits and deferrals totaling $25M	$130M	0.016% existing State sales tax generated in King County credited to repay ballpark construction bonds New sports related lottery games 3% taxes on admissions and parking Extension to 2020 of the 2% tax on hotel rooms in King County (some of this revenue also went to retire Kingdome roof repair bonds)	Dedicated sales tax A portion of the tax revenue, including the sales tax on food and beverages and on rental cars, is not dependent on event attendance, diversifying the revenue risk. All cost overruns assumed by team
Key Arena Renovation *1994*	$74.5M	Minor amounts for some equipment and fixtures	Facility revenues	15-year lease (Note: 15-year lease term was shorter than 20-year term of bonds) No non relocation agreement City operated the venue and retained operating risk City responsible for capital maintenance and repairs

Another question that has come up recently is why the County would be financing a smaller contribution than the City. The vast majority (95 percent) of the tax revenues generated at the arena would flow to the City (without an agreement to share the revenues based on the City and County proportions of the total public contribution). If the City had the ability to incur the full amount of debt service, the County's participation would not be necessary. The only reason the County would be involved is because of its ability to provide additional debt service. The County has $2.8 billion in debt capacity and its potential $80 million contribution would represent only 2.9 percent of its overall capacity.

Follow-up From Last Week

Last week, the committee asked a number of questions about the market viability for existing teams with the addition of NBA and NHL teams, as well as about the proposal's impact on jobs. Carl Hirsch will be speaking to some of these issues. We will ask the BFM Chair's Arena Proposal Expert Review Panel to consider these questions as well.

Several questions were asked about protections in the event of a "worst-case scenario" and staff is working with the Prosecuting Attorney's Office to draft responses.

A question was asked about whether the County has any guidelines, policies or criteria for issuing debt or otherwise contributing to public-private partnerships. The County does not have any policies in place at this time, but past examples of County support for similar projects include issuing $336 million in debt for Safeco Field and making much smaller contributions towards McCaw Hall and Benaroya Hall.

Finally, a question was asked about the City's Inclusion Plan, which ArenaCo would commit to using in developing the arena. For all projects above $300,000, bidders are required to submit women- and minority-owned business (WMBE) Inclusion Plans. Bidders must demonstrate that they have conducted sufficient outreach to appropriately qualified WMBE firms. The City also requires bidders to identify WMBE goals as a percentage of the total bid amount, and as part of their performance evaluation the City compares the original percentage goals to the actual project WMBE utilization. For projects with an estimated cost above $2 million, bidders are also required to identify a WMBE Expert in the bid. The WMBE expert works with the City and the bidder to develop and implement the Inclusion Plan.

June 19th Briefing

Please note that Chris Hansen will be speaking to the Budget and Fiscal Management Committee at its June 19th meeting. We also expect to introduce the members of the Arena Proposal Expert Review Panel at that meeting.

ATTACHMENTS

1. Proposed Ordinance 2012-0202

2. Fiscal Note
3. Transmittal Letter
4. Executive-transmitted Summary and Key Terms